

COMMONWEALTH EDISON COMPANY
ILL. C. C. NO. 00-0295
DIRECT TESTIMONY
OF
ROBERT E. BERDELLE

MAY 19 11 04 AM '00

CHIEF CLERK'S OFFICE

Q. Please state your name and business address.

A. Robert E. Berdelle, Commonwealth Edison Company ("ComEd"), 10 South Dearborn Street, Chicago, Illinois.

Q. What is your position with ComEd?

A. I am Vice President and Comptroller.

Q. What are your responsibilities in that position?

A. As Comptroller, I am responsible for the executive direction of the Company's accounting and budgeting organizations and the preparation and interpretation of all accounting reports and financial statements.

Q. Please provide your educational and employment background.

A. I hold the degree of Bachelor of Business Administration in Finance from the University of Notre Dame. I am a Certified Public Accountant in the State of Illinois. I am a member of the National Association of Business Economists and the Financial Executives Institute. I have been employed by ComEd since 1978. On December 16, 1998, I was appointed to my present position as Vice President and Comptroller of ComEd. Prior that time, I served as Comptroller. I have also held a variety of positions, including Manager of Financial Reporting, Director of Strategic Analysis, Director of Revenue Requirements, Regulatory Project Manager, District Manager for an operating unit of the company and Regulatory Affairs Director.

Q. What approval is the Company requesting in this proceeding?

27 A. The Company is asking that the Commission authorize ComEd's entry into general
28 service agreements with one or more affiliated "service companies" as of the effective
29 date of the merger involving ComEd's parent, Unicom Corporation ("Unicom") and
30 PECO Energy Company ("PECO"). The service companies, which would provide
31 ComEd with various services subsequent to the effective date of the merger, would
32 constitute "affiliated interests" within the meaning of Section 7-101 of the Act. ComEd
33 would enter into a separate service agreement with each such service company. A form
34 of the service agreement was attached to ComEd's Petition as Appendix A.

35 ComEd is also asking that the Commission authorize it to engage in other
36 transactions, as described herein, such as the provision of services by ComEd and the
37 sale, leasing and/or sharing of assets, with other affiliates, pursuant to the "at cost" rules
38 of the Securities and Exchange Commission ("SEC") under the Public Utility Holding
39 Company Act of 1935 ("PUHCA").

40 Q. Please describe ComEd.

41 A. ComEd is an Illinois corporation that provides electric utility service across northern
42 Illinois to approximately 3.4 million customers. ComEd is a public utility within the
43 meaning of the Act. ComEd is a subsidiary of Unicom.

44 Q. Please describe the merger.

45 A. Unicom has entered into a definitive agreement (the "Merger Agreement") providing for
46 a merger of equals with PECO. PECO is an electric and gas utility serving 1.5 million
47 customers and more than 400,000 natural gas customers in the Philadelphia area. PECO
48 also has established unregulated ventures in retail energy sales, telecommunications and

49 utility infrastructure management. On November 23, 1999, ComEd gave the
50 Commission notice of the merger under Section 16-111(g) of the Act.

51 Pursuant to the Merger Agreement, ComEd and PECO will become subsidiaries
52 of a common holding company, Exelon Corporation ("Exelon"). Exelon will register
53 with the SEC as a holding company under PUHCA.

54 In accordance with the provisions of PUHCA and the SEC's rules, on March 16,
55 2000, Exelon filed with the SEC a Form U-1, which is an application for approval of the
56 merger, including the structure of the holding company system and the form and terms of
57 transactions to be conducted between and among the affiliates.

58 Q. Please describe the SEC's rules governing affiliate transactions.

59 A. The Exelon system companies will engage in a variety of affiliate transactions for the
60 provision of goods, services, and construction. Those transactions must comply with the
61 requirements and provisions of SEC Rules, including Rules 87, 88, 90 and 91 unless
62 otherwise authorized by the SEC by order or by rule.

63 SEC Rule 90 prohibits a registered holding company from providing any services,
64 goods or construction directly to a public utility affiliate. Accordingly, the Exelon
65 system will use one or more service company subsidiaries to provide ComEd, PECO,
66 Exelon Genco and non-utility subsidiaries with services, goods and construction. A
67 "subsidiary service company" is one determined by the SEC to be "so organized and
68 conducted, or to be conducted, as to [provide] reasonable assurances of efficient and
69 economical performance of services or construction or sale of goods for the benefit of
70 associate companies at cost fairly and equitably allocated among them" SEC Rule
71 88.

72 SEC Rule 90 also provides that no service company may perform any service or
73 construction for, or provide any good to, any affiliate at more than cost. SEC Rule 91
74 defines "not more than cost" to be a "price (taking into account all charges) that does not
75 exceed a fair and equitable allocation of expenses (including the price paid for goods)
76 plus reasonable compensation for necessary capital procured through the issuance of
77 capital stock (or similar securities of an unincorporated company)." SEC Rule 91 also
78 provides, among other things, that "direct charges shall be made so far as costs can be
79 identified and related to the particular transactions involved without excessive effort or
80 expense."

81 Unicom and PECO have not yet determined how many subsidiary service
82 companies will be employed, or which services will be provided by which service
83 company if there is more than one. All service companies, however, will provide
84 services, goods and construction pursuant to the same guidelines. Accordingly, ComEd
85 does not believe that it is necessary at this time to identify the specific number of service
86 companies or the specific function of each, and I will refer to all service companies as
87 "Exelon Services." Exelon Services will be staffed primarily by transferring personnel
88 from the current employee rosters of Unicom, PECO and their subsidiaries. It is expected
89 that Exelon Services will conduct substantial operations in Chicago and Philadelphia.
90 Merger transition teams are presently considering where specific operations of the
91 combined company will be headquartered.

92 Q. What services will be provided by Exelon Services?

93 A. In accordance with the SEC Rules, ComEd intends to enter into a service agreement in
94 the form of the General Service Agreement with each service company within the Exelon

95 system. Exelon Services will provide to ComEd, PECO, Exelon Genco and non-utility
96 subsidiaries one or more of the following: administrative, management and support
97 services, including services relating to support of electric and gas plant operations (i.e.,
98 energy supply management of the bulk power and natural gas supply, procurement of
99 fuels, coordination of electric and natural gas distribution systems, maintenance,
100 construction and engineering work); customer bills, and related matters; materials
101 management; facilities; real estate; rights of way; human resources; finance; accounting;
102 internal auditing; information systems; corporate planning and research; public affairs;
103 corporate communications; legal; environmental matters; executive services and other
104 services listed on Schedule 2 to the General Service Agreement.

105 Q. What charges will Exelon Services assess for services?

106 A. Under the General Service Agreement, the cost of services provided by Exelon Services
107 will be directly assigned, distributed or allocated by activity, project, program, work
108 order or other appropriate basis. To accomplish this, employees of Exelon Services will
109 record their labor and expenses to bill the appropriate subsidiary company. Costs of
110 Exelon Services will be accumulated in accounts of the service company and be directly
111 assigned, distributed, or allocated to the appropriate client company in accordance with
112 the applicable guidelines. There will be an internal audit group which, among other
113 things, will audit the assignment of service company charges to client companies. Exelon
114 Services' accounting and cost allocation methods and procedures shall be structured so as
115 to comply with the SEC's standards for service companies in registered holding company
116 systems.

117 As compensation for services, the General Service Agreement provides that
118 "Client Companies listed in Attachment A hereto, as amended from time to time, shall
119 pay to Service Company all costs which reasonably can be identified and related to
120 particular services provided by Service Company for or on Client Company's behalf
121 (except as may otherwise be permitted by the SEC)." The Companies listed on
122 Attachment A to the General Service Agreement will be ComEd, PECO, Exelon Genco
123 and any other company which is a "public utility company" within the meaning of
124 PUHCA and which operates within the United States (the "Operating Companies") as
125 well as any subsidiary that is involved in directly providing goods, construction or
126 services to the Operating Companies (together with the Operating Companies, the
127 "Utility Subsidiaries").

128 The General Services Agreement also provides that "Client Companies listed on
129 Attachment B hereto, as amended from time to time, shall pay to Service Company
130 charges for services that are to be no less than cost (except as may otherwise be permitted
131 by the SEC), insofar as costs can reasonably be identified and related by Service
132 Company to its performance of particular services for or on behalf of Client Company."
133 The companies listed on Attachment B to the General Service Agreement will be
134 subsidiaries that Exelon is authorized to hold, other than the Utility Subsidiaries, such as
135 Exempt Wholesale Generators, Foreign Utility Companies, other companies exempt
136 under PUHCA (such as telecommunications companies), certain intermediate companies
137 and other entities which are not involved in directly providing goods, construction or
138 services to Utility Subsidiaries.

139 Where more than one company is involved in or has received benefits from a
140 service performed, the General Service Agreement provides that such costs "shall be
141 fairly and equitably allocated using the ratios set forth" in the General Service
142 Agreement. Thus, charges for all services provided by Exelon Services to ComEd will be
143 as determined under SEC Rules 90 and 91.

144 Q. Will entities other than Exelon Services provide services or goods?

145 A. Yes. ComEd, PECO, Genco and the other associate companies may provide to one
146 another and other associate companies services incidental to their businesses, including
147 but not limited to, infrastructure services maintenance, storm outage emergency repairs,
148 and services of personnel with specialized expertise related to the operation of the utility.
149 These services will be provided in accordance with SEC Rules 87, 90, and 91. Moreover,
150 in accordance with those SEC Rules and Rules 41, 43 and 44, certain goods and assets
151 may be sold by one Utility Subsidiary or associate company to another, and certain assets
152 may be used by one Utility Subsidiary for the benefit of one or more other associate
153 companies. All of these transactions will occur "at cost" under the SEC rules.

154 Q. Will any transactions be exempt from the "at cost" requirement?

155 A. Yes. The SEC may exempt specific transactions from the "at cost" requirement, and
156 Exelon has requested various exemptions that would affect certain transactions involving
157 ComEd. This Commission has previously approved the costing treatment that Exelon
158 seeks from the SEC for these transactions.

159 ComEd currently provides to or receives services from affiliates in accordance
160 with an Affiliated Interests Agreement ("AIA") approved by this Commission in Docket
161 No. 95-0615. Under the AIA, ComEd may provide services to affiliates, and affiliates

162 may provide services to ComEd, at the "prevailing price," which, as defined in the AIA,
163 is essentially a market price. Under the AIA, "prevailing price" means, for ComEd, the
164 tariffed rate or other pricing mechanism approved by the Commission, and for ComEd's
165 Unicom affiliates, the price charged to nonaffiliates if such transactions with nonaffiliates
166 constitute a substantial portion of the affiliate's total revenues from such transactions. If
167 there is no prevailing price, then the transactions are priced at fully distributed cost,
168 which is substantially the same as "cost" as defined under PUHCA.

169 Under the AIA, ComEd has a contract with Unicom Energy Services ("UES")
170 under which ComEd acquires services at the prevailing price. Under this contract, UES
171 provides service to ComEd in connection with contracts that ComEd has with certain
172 U.S. governmental agencies to provide energy management, demand side management
173 and energy conservation and efficiency services. These services include energy audits,
174 feasibility analyses, engineering and design and implementation. All services required to
175 be provided by ComEd to the governmental entities are provided to ComEd by UES at a
176 prevailing price. To the extent required, Exelon has asked the SEC for an exemption or
177 waiver from applicable provisions of PUHCA for ComEd to continue this arrangement.

178 Under the Act, ComEd is authorized to provide certain competitive services to
179 affiliates and unaffiliated parties. These services include any service "declared to be
180 competitive" by the Commission, "contract service" for the provision of electric power
181 and energy or other services provided by mutual agreement between an electric utility
182 and a retail customer, and "services, other than tariffed services, that are related to but not
183 necessary for, the provision of electric power and energy or delivery services."

184 ("Competitive Services"). The price at which Competitive Services may be sold by
185 ComEd is not limited to cost.

186 With this Commission's approval, at present, Competitive Services typically are
187 accounted for on a "below the line" basis. The costs associated with such services may
188 not be included in the utility's calculation of cost for rate making purposes. Any profit or
189 loss on these activities would be disregarded for utility rate making purposes. In effect,
190 these activities are conducted as if they were conducted by a separate nonregulated
191 "subsidiary" except that the utility company is the actual party to the transactions. Hence,
192 under Illinois law customers are fully protected from the possibility that an abuse of the
193 affiliate relationships between or among ComEd and any of the other Exelon companies
194 for such "below the line" services could result in excessive charges to ComEd, or be
195 passed on to its customers.

196 Exelon has requested the SEC to authorize ComEd to enter into agreements with
197 affiliates to provide Competitive Services and to acquire goods or services from affiliates
198 related to Competitive Services at fair market prices determined under the AIA.
199 Accordingly, to the extent that the SEC grants the requested exemptions, these
200 transactions will not be conducted under the General Service Agreement, but under the
201 AIA. To the extent that the SEC does not grant the exemptions, these transactions would
202 be subject to the General Service Agreement and the SEC Rules.

203 Q. Will the Commission have access to affiliated interests' books and records?

204 A. Yes. ComEd will give the Commission and its Staff access to all accounts and records of
205 Exelon and Exelon's other subsidiaries related to the transactions between ComEd and
206 Exelon's other subsidiaries under the General Service Agreement, including access to

207 accounts and records of joint or general expenses, any portion of which may be
208 applicable to such transactions.

209 Q. Does this conclude your direct testimony?

210 A. Yes, it does.